

June 28, 2010

Honorable John Ehsa  
Governor, State of Pohnpei  
Federated States of Micronesia

Dear Governor Ehsa:

We have performed an audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei (the State) as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated June 28, 2010, which report was modified to include reference to other auditors.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the State is responsible.

## **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated July 15, 2009. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of each opinion unit in the State's basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2009 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on the State's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2009 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on the State's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement (OMB Circular A-133)*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Office of the Governor are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Governor of their responsibilities.

We considered the State's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of the State's compliance with those requirements.

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the State's 2009 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2009, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## **UNCORRECTED MISSTATEMENTS**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **MATERIAL CORRECTED MISSTATEMENTS**

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. We have attached to this letter, as Appendix I, a summary of misstatements corrected by management.

## **SIGNIFICANT ACCOUNTING POLICIES**

The State's significant accounting policies are set forth in Note 1 to the State's 2009 financial statements. During the year ended September 30, 2009, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the State:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

The implementation of these pronouncements did not have a material effect on the financial statements of the State.

#### **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the State's 2009 financial statements.

#### **CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2009.

#### **SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

Honorable John Ehsa  
Governor, State of Pohnpei  
Federated States of Micronesia  
June 28, 2010

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## **OTHER SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant issues requiring communication to the Office of the Governor.

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

In our judgment, we received the full cooperation of the State's management and staff and had unrestricted access to the State's senior management in the performance of our audit.

## **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of the State's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the State is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix III, a copy of the representation letter we obtained from management.

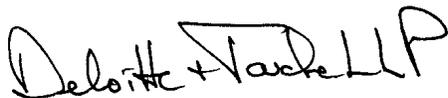
## **CONTROL-RELATED MATTERS**

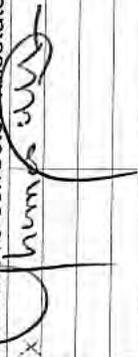
We have issued a separate report to you, also dated June 28, 2010, containing certain matters involving the State's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated June 28, 2010, containing certain matters involving the State's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

\* \* \* \* \*

This report is intended solely for the information and use of management, the Office of the Governor, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Handwritten signature of Deloitte + Touche LLP in black ink.

General Fund - Journal Entries - AJE			
#	Name	Debit	Credit
	<b>1 AJE To record encumbrance on the GL - 7132 (Posted)</b>		
1-00-00-00000-	Fund Balance Surplus	292,207.91	-
1-00-00-00000-	Reserved for encumbrance	-	292,207.91
	To record encumbrance on the GL	292,207.91	292,207.91
	<b>2 AJE To correct opening balance - (Posted)</b>		
1-00-00-00000-	Fund Balance Surplus	-	8,052.28
1-10-21-01020-	Misc Goods & Services	8,052.28	-
	To correct opening fund balance	8,052.28	8,052.28
The above corrected misstatements do not represent fraud or illegal acts.			
			

Grant Assistance Fund - Journal Entries - AJE			
#	Name	Debit	Credit
	<b>1 AJE Record encumbrance - (Posted)</b>		
7-00-00-00000	Fund Balance Surplus	1,487.11	-
10-00-00-00000	Fund Balance Surplus	521,826.27	-
11-00-00-00000	Fund Balance Surplus	337,010.94	-
12-00-00-00000	Fund Balance Surplus	27,436.23	-
13-00-00-00000	Fund Balance Surplus	322.14	-
14-00-00-00000	Fund Balance Surplus	11,734.50	-
15-00-00-00000	Fund Balance Surplus	127,171.81	-
19-00-00-00000	Fund Balance Surplus	53,681.61	-
23-00-00-00000	Fund Balance Surplus	1,204.47	-
25-00-00-00000	Fund Balance Surplus	2,567.49	-
25-00-00-00000	Reserved for Encumbrance	-	2,567.49
23-00-00-00000	Reserved for Encumbrance	-	1,204.47
20-00-00-00000	Reserved for Encumbrance	-	121,788.97
19-00-00-00000	Reserved for Encumbrance	-	53,681.61
15-00-00-00000	Reserved for Encumbrance	-	127,171.81
14-00-00-00000	Reserved for Encumbrance	-	11,734.50
13-00-00-00000	Reserved for Encumbrance	-	322.14
12-00-00-00000	Reserved for Encumbrance	-	27,436.23
11-00-00-00000	Reserved for Encumbrance	-	337,010.94
10-00-00-00000	Reserved for Encumbrance	-	521,826.27
7-00-00-00000	Reserved for Encumbrance	-	1,487.11
20-00-00-00000	Fund surplus	121,788.97	-
	To record encumbrance in GL	1,206,231.54	1,206,231.54
	<b>2 AJE To record PSG's adjustment - (Posted)</b>		
19-00-00-00000	Fund Balance Surplus	858,575.00	-
19-10-29-1910	(Non-recurring transaction	-	858,575.00
	To record client adjustment	858,575.00	858,575.00

Grant Assistance Fund - Journal Entries - AJE			
#	Name	Debit	Credit
	3 AJE To correct opening fund balance - (Posted)		
23-00-00-0000	Fund Balance Surplus	-	47,526.91
23-31-46-3690	Misc. Goods & Services	47,526.91	-
	To adjust opening fund balance	47,526.91	47,526.91
The above corrected misstatements do not represent fraud or illegal acts.			
<i>Thomas W.</i>			

Other Nonmajor Funds - Journal Entries - AJE			
#	Name	Debit	Credit
	<b>1 AJE To record encumbrance on GL - (Posted)</b>		
27-00-00-00000	Fund Balance Surplus	1,633.25	-
33-00-00-00000	Fund Balance Surplus	2,700.54	-
34-00-00-00000	Fund Balance Surplus	26,008.71	-
37-00-00-00000	Fund Balance Surplus	868.99	-
53-00-00-00000	Fund Balance Surplus	5,577.00	-
87-00-00-00000	Fund Balance Surplus	626.16	-
93-00-00-00000	Fund Balance Surplus	6,029.00	-
27-00-00-00000	Reserved for Encumbrance	-	1,633.25
33-00-00-00000	Reserved for Encumbrance	-	2,700.54
34-00-00-00000	Reserved for Encumbrance	-	26,008.71
37-00-00-00000	Reserved for Encumbrance	-	868.99
53-00-00-00000	Reserved for Encumbrance	-	5,577.00
87-00-00-00000	Reserved for Encumbrance	-	626.16
93-00-00-00000	Reserved for Encumbrance	-	6,029.00
	To record encumbrance on GL	43,443.65	43,443.65
	<b>2 AJE To record PSG's adjustment - (Posted)</b>		
18-00-00-00000	Fund Balance Surplus	858,575.00	-
18-80-80-18000	Non-recurring transaction	-	858,575.00
	To record PSG's adjustment	858,575.00	858,575.00

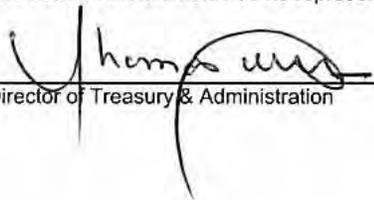
Other Nonmajor Funds - Journal Entries - AJE			
#	Name	Debit	Credit
	3 AJE To opening fund balance - (Posted)		
87-00-00-00000	Fund Balance Surplus	-	8,790.64
87-30-45-8975	Gen. Contractual Services	8,790.64	-
	To correct opening fund balance	8,790.64	8,790.64
The above corrected misstatements do not represent fraud or illegal acts.			
X	<i>James W. [Signature]</i>		

Long-Term Debt - Journal Entries - AJE			
#	Name	Debit	Credit
	<b>1 AJE To adjust Annual Leave - 6312 (Posted)</b>		
92-00-00-0000	Amounts T/B Prvd	22,367.00	-
92-00-00-0000	Leave Payable	-	22,367.00
	To adjust GL to equal SL	22,367.00	22,367.00
	<b>2 AJE ADB loans - 6311 (Posted)</b>		
92-3824	LTD ADB Loan No. 1873	-	-
92-3825	LTD ADB Loan No. 1874	-	-
92-00-00-0000	Amounts T/B Prvd	371,438.00	-
92-00-00-0000	LTD ADB Loan	-	371,438.00
	To adjust GL to equal amount confirmed	371,438.00	371,438.00
	<b>3 AJE To adjust Claims payable - 2375 (Posted)</b>		
92-00-00-0000	Amounts T/B Prvd	-	414,032.00
92-00-00-0000	Jdgmnts/Claims Payable	414,032.00	-
	To adjust GL based on AG's representation	414,032.00	414,032.00
<p>The above corrected misstatements do not represent fraud or illegal acts.</p> <p><i>X</i> <i>James W...</i></p>			

APPENDIX A  
GENERAL FUND

CURRENT YEAR UNCORI			Pre-Tax Correcting Entry						
Entry Description	TM or WP REF	Type of Entry	Balance Sheet				Income Statement		
			Assets	Liabilities	Retained Earnings Beg of Year	Other Equity A/Cs	Income from Cont. Ops	Income / Expense	
			Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
paje<1> Dr. Revenue Share		Known						18,581	
Cr.Accrued revenue share		Known	(18,581)						
PAJE<2> DR. PAYROLL EXPENDITURE		Known						13,307	
CR. NET PAYROLL LIABILITIES		Known		(13,307)					
Revenue AR		Known	(88,478)					88,478	
			(107,059)	(13,307)	0	0	0	120,366	0

The above misstatements do no represent fraud or illegal acts. Rather, such represent misstatements.

  
 \_\_\_\_\_  
 Director of Treasury & Administration



# POHNPEI STATE GOVERNMENT

## Department of Treasury and Administration

P.O. Box 1567  
 Kolonia, Pohnpei FM 96941  
 Tel: (691) 320-2243/2323, Fax: (691) 320-5505  
 Email: pnidota@mail.fm

Office of the Director

June 28, 2010

Deloitte & Touche  
 P. O BOX 753  
 POHNPEI, FM 96941

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei (the "Government"), as of and for the year ended September 30, 2009, which collectively comprise the Government's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the Government in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in conformity with GAAP.
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
  - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
  - b. The financial statements properly classify all funds and activities, including special and extraordinary items, where applicable.
  - c. All funds that meet the quantitative criteria in Statement No. 34 and Statement No. 37 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
  - d. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved. The basic financial statements report \$17,884,557 of restricted net assets, of which \$4,949,531 is restricted by enabling legislation.
  - e. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  - f. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
  - g. Interfund, internal, and intra-Government activity and balances have been appropriately classified and reported.
  - h. Deposits and investment securities are properly classified in the category of custodial credit risk.
  - i. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - j. Required supplementary information is measured and presented within prescribed guidelines.
  - k. Applicable laws and regulations are followed in adopting, approving and amending budgets.

1. Costs to federal awards have been charged in accordance with applicable cost principles.
2. The Government has made available to you all:
  - a. Summaries of actions of legislation passed by the Government's legislative body.
  - b. Financial records and related data for all financial transactions of the Government and for all funds administered by the Government. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Government and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
  - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
3. There has been no:
  - a. Action taken by Government management that contravenes the provisions of federal laws and local laws and regulations, or of contracts and grants applicable to the Government, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
  - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
5. The Government has made available to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government and do not believe that the financial statements are materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the Government involving:
  - a. Management.

- b. Employees who have significant roles in internal control over financial reporting.
  - c. Others if the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Government received in communications from employees, former employees, analysts, regulators, or others.
  8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*), except as disclosed in Note 8 to the basic financial statements.
  9. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. In addition, we have accurately completed the appropriate sections of the data collection form.
  10. We are responsible for compliance with local, state, and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Government's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Government is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
  11. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
  12. The Government has obligated, expended, received, and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by local or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by local or federal law.
  13. The Government has identified in the Schedule of Expenditures of Federal Awards all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.

14. The Government has certified to federal granting agencies that it has not used federal funds for lobbying for specific federal awards and that it has disclosed, or will disclose, any expenditures of nonfederal funds made for lobbying purposes. The Government has also required, where applicable, all subrecipients of \$100,000 or more of federal funds to make the same certification.
15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
16. We have:
  - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2009.
  - b. Complied, in all material respects, with the requirements identified above in connection with federal awards, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
  - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
  - d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through Government, as applicable.
  - e. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
  - f. Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.
  - g. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.
  - h. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.

- i. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
  - j. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
17. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
  18. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violation of provisions of contracts or grant agreements, or abuse that you report.
  19. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
  20. No organizations were identified that meet the criteria established in GASB Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations Are Component Units*, an amendment of Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*.
  21. We are responsible for the fair presentation of the additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.

Except where otherwise stated below, matters less than \$79,475 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

22. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
23. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
24. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
  - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
  - b. Guarantees, whether written or oral, under which the Government is contingently liable.

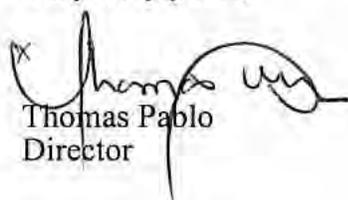
25. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the financial statements.
26. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
  - a. The concentration exists at the date of the financial statements.
  - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
  - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
27. There are no:
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*), except as disclosed in Note 8 to the basic financial statements.
28. The Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in Note 5 to the financial statements.
29. The Government has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
30. No department or agency of the Government has reported a material instance of noncompliance to us, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.

31. The Government has identified all derivative instruments as defined by GASB Technical Bulletin 2003-1, Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets (TB 03-1), and appropriately disclosed such derivatives in accordance with TB 03-1.
32. No events have occurred after September 30, 2009 but before June 28, 2010, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
33. Management has disclosed whether, subsequent to September 30, 2009, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred.
34. The Government is responsible for determining and maintaining the adequacy of the allowance for uncollectible receivables, as well as estimates used to determine such amounts.
35. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments, we believe that:
  - a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
  - b. The completeness and adequacy of the disclosures related to the fair values are in conformity with accounting principles generally accepted in the United States of America.
  - c. No events have occurred subsequent to September 30, 2009 and before June 28, 2010, that requires adjustment to the fair value measurements and disclosures included in the financial statements.
36. The cost method is used to account for the Government's investment in common stock of an investee where the common stock is either nonmarketable or of which the Government has a 20 percent or lesser ownership interest and thus the Government does not have the ability to exercise significant influence over the investee's operating and financial policies.
37. During fiscal year 2009, the Government implemented the following pronouncements, implementation of which did not have a material effect on the financial statements:
  - GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
  - GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
  - GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.
38. In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
39. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
40. In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
41. In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.

42. The Government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the Government management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Government reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in any of the past three fiscal years.
43. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
44. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
45. Provision has been made, where applicable, to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Government and do not include any items consigned to it or any items billed to customers.
46. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.

Very truly yours,



Thomas Pablo  
Director



Andrew Joseph  
Chief of Finance